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HUSKY

ANNUAL REPORT

1970

figures approved March 11/

COVER PHOTO

Exploratory drilling in the rugged Gold Creek area of northwestern Alberta.

HUSKY

ANNUAL MEETING

The Annual General Meeting of Shareholders of Husky Oil Ltd. will be held in the Palliser Hotel in Calgary, Alberta, at 10:00 a.m. on April 30, 1971. Formal notice of this meeting and proxy material are enclosed.

GENERAL OFFICE

815 Sixth Street S.W.
Calgary 2, Alberta, Canada

UNITED STATES OFFICES

Post Office Box 380
Cody, Wyoming 82414

4040 East Louisiana Avenue
Denver, Colorado 80222

REFINERIES

Cheyenne, Wyoming
Cody, Wyoming
Lloydminster, Alberta
Moose Jaw, Saskatchewan
Salt Lake City, Utah

DIVISION MARKETING OFFICES

Southern Region

Denver, Colorado
Omaha, Nebraska
Salt Lake City, Utah

Northern Region

Calgary, Alberta
Billings, Montana
Thunder Bay, Ontario
Spokane, Washington

HUSKY BRIQUETTING, INC.

Post Office Box 380
Cody, Wyoming 82414

Sales Office
Minneapolis, Minnesota

Plant Locations
Dickinson, North Dakota
Huntsville, Ontario
Isanti, Minnesota
Stamford, New York
Waupaca, Wisconsin

GATE CITY STEEL CORPORATION

P.O. Box 14022
Omaha, Nebraska 68114

District Offices

Albuquerque, New Mexico
Boise, Idaho
Chicago, Illinois
Davenport, Iowa
Denver, Colorado
Idaho Falls, Idaho
Omaha, Nebraska
Pocatello, Idaho
Salt Lake City, Utah
Sterling, Illinois

TRANSFER AGENTS AND REGISTRARS

Common Shares -

Montreal Trust Company
Offices at Calgary, Halifax Montreal, Regina, Saint John Toronto, Vancouver and Winnipeg

The Chase Manhattan Bank
New York City

Preferred Shares -

Montreal Trust Company
At above offices

AUDITORS

Peat, Marwick, Mitchell & Co.
Calgary, Alberta

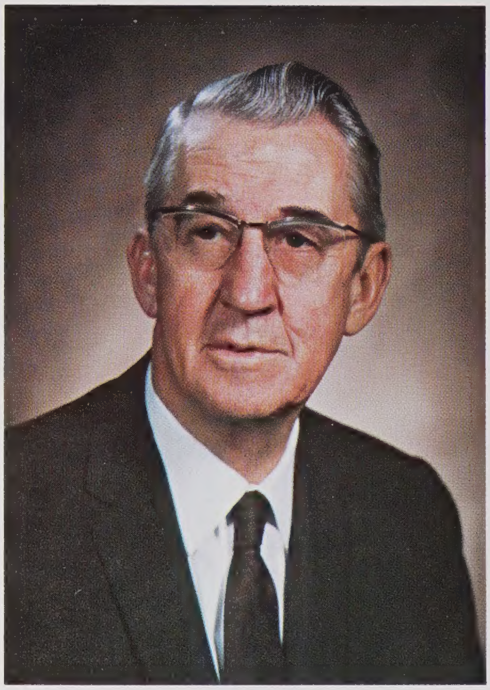
HIGHLIGHTS OF OPERATIONS

FINANCIAL	1970	1969
Gross operating revenues	$182,947,000	$163,493,000
Cash flow from operations	26,566,000	24,244,000
Net earnings:		
From operations	6,974,000	7,865,000
Special charge	(1,711,000)	—
Total	5,263,000	7,865,000
Per common share:		
From operations	$0.67	$0.76
Special charge	(0.18)	—
Total	$0.49	$0.76
Growth expenditures	42,111,000	39,535,000
Working capital at end of year	30,482,000	15,388,000
Long term debt and deferred credits at end of year	113,200,000	104,337,000

OPERATIONS		
Crude oil and equivalent gas production (barrels daily)	44,454	35,134
Net oil and equivalent gas and sulphur reserves (thousands of barrels)	309,800	273,300
Lloydminster blend sales (barrels daily)	29,614	21,553
Refinery runs (barrels daily)	50,044	47,893
Refined product sales (barrels daily)	56,961	52,730
Number of sales outlets	1,631	1,606

CONTENTS

TO THE SHAREHOLDERS



Glenn E. Nielson
Chairman of the Board

Gene E. Roark
President

During 1970 Husky made several significant moves which will have beneficial effects on the company in 1971 and following years.

Two transactions involving Curtis Inc., resulted in the liquidation of that corporation early in 1971, with Husky acquiring 55 per cent direct ownership of Empire State Oil Company. Empire is primarily an oil and gas producing company with about 10,000 barrels per day of production in Wyoming and southern Alberta. The consolidated operating and financial information in this report includes Empire State from April 1, 1970.

On December 31, 1970, Husky acquired an interest in 61 producing wells in the Hilight field of Wyoming. Production from these wells amounting to 2,500 barrels per day can be delivered to our Cheyenne, Wyoming, refinery. In addition, Husky acquired approximately 50 per cent interest in 15 drillable locations which are expected to be developed by the drilling fund described below.

On July 9, 1970, Husky closed a public offering in the form of a drilling fund. The investment by limited partners amounted to $30½-million, payable over a 2½-year period. Part of Husky's developmental program in the Lloydminster area of Alberta and Saskatchewan is included in the fund projects, but the major portion of the monies will be spent in exploration. Husky contributes 20 per cent risk capital in these projects, and this has permitted a major step up in the company's exploration program continuing into 1971.

Although the company's oil and gas exploration program did not result in a major discovery during the year, the step up in drilling activity accomplished through the drilling fund, which was active only in the last five months of the year, has permitted the company to increase its exposure in good exploration prospects and important land positions for future exploration.

The company's proved net reserves of oil and equivalent natural gas and sulphur climbed to more than 217-million barrels, and production of net oil and equivalent gas climbed to 16.2-million barrels. In both reserves and production, part of the increases are attributable to the consolidation of Empire State Oil.

The modernization of the Cheyenne refinery is underway and will result in the capability to produce a lead-free gasoline, major improvements in operating efficiencies, and modernization of air and water pollution control systems. The refinery capacity will be 20,000 barrels per day. Studies of similar modernization of the Salt Lake City, Utah, refinery are in progress.

The rebranding and upgrading of service stations throughout the western United States and Canada were completed during 1970, and significant improvements in marketing profits were realized. The beneficial results of this program will continue to have impact on the marketing performance of the company in 1971.

In mid-1970, Husky disposed of its offshore contract drilling operations to avoid the necessity of having to make comparatively heavy capital expenditures for new equipment in order to remain competitive in the industry.

Gate City Steel's profits in 1970 were slightly down from 1969 in line with generally declining profits in the steel business. Early in 1971, Gate City acquired the Nolder Steel Company of Chicago, and disposed of an unprofitable operation in Idaho.

Husky Briquetting acquired the assets of another company, giving it additional production versatility, and this with other factors is expected to contribute to profitability for the subsidiary in 1971.

The increases in crude oil prices, improved marketing conditions between the U.S. and Canada, the focus on domestic crude oil created by the Middle East situation, and the U.S. energy crisis have produced a most optimistic outlook for 1971.

Heavy crude oil, such as produced by the company in Lloydminster, is in unlimited demand.

These circumstances coupled with the continued aggressive efforts of the management are expected to result in a sharp improvement in earnings for the company in the coming year.

In closing, your attention is called to the photographs of Husky employees in this report. The employees continue to represent the strongest asset of the company.

On behalf of the Board

Glenn E. Nielson

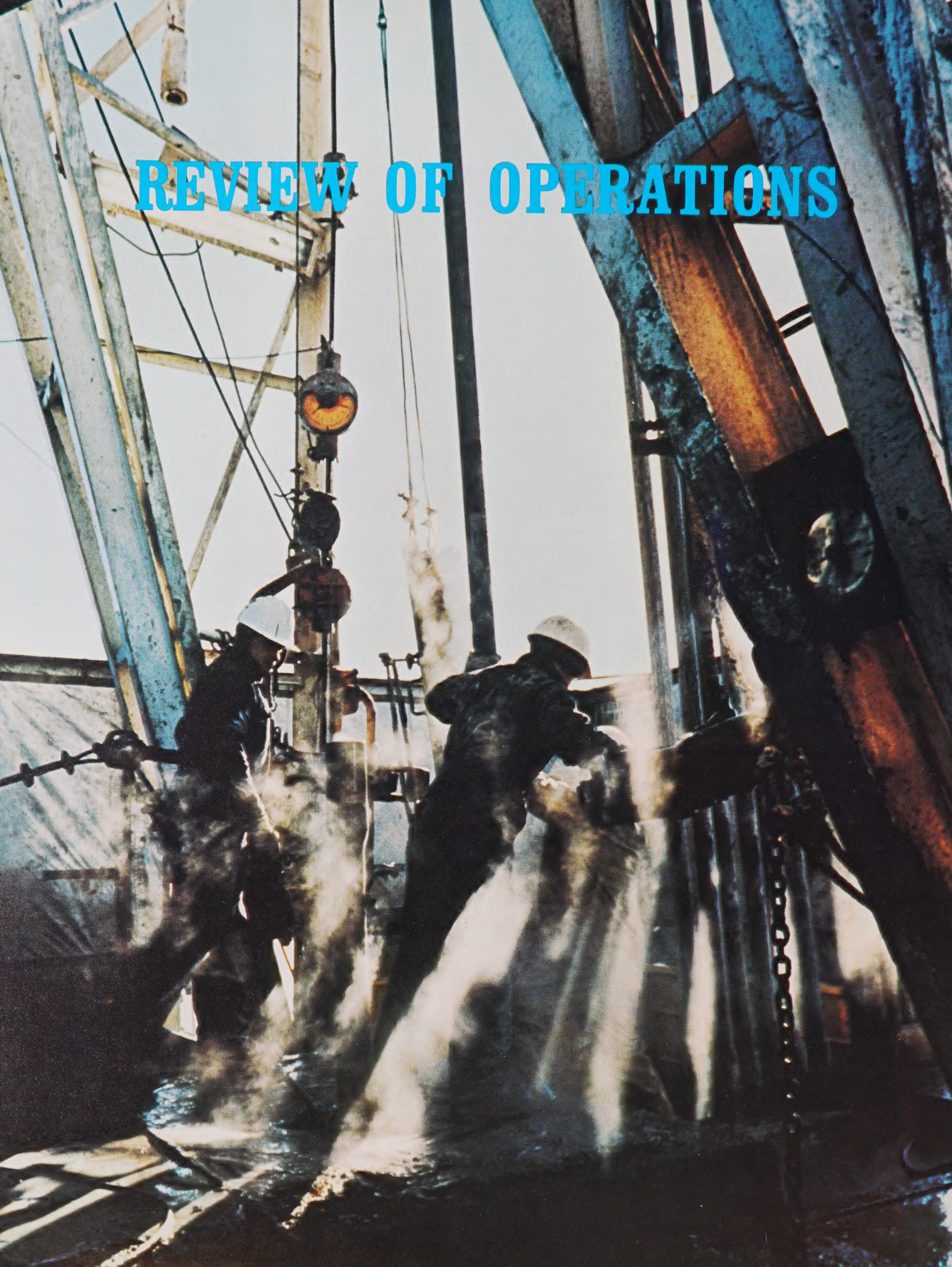
Glenn E. Nielson
Chairman of the Board

Gene E. Roark

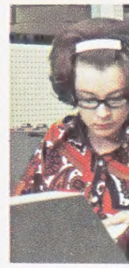
Gene E. Roark
President

Calgary, Alberta, March, 1971.

REVIEW OF OPERATIONS



EXPLORATION



With initiation of the Husky drilling fund, Husky Exploration, Ltd., in July of 1970, Husky's exploration efforts were stepped up to where the company is one of the most active exploration companies in western Canada. During the remainder of 1970, the fund participated in 23 exploratory wells in Canada and five in the United States. Under the fund, 99 development wells were drilled in the Lloydminster area of Saskatchewan and Alberta.

The fund exploratory drilling program involved 20 separate prospects, with modest success in the shallow "Milk River" gas play of southern Alberta and the Bellshill Lake area of east central Alberta. Six of the Canadian wells carried over into 1971, and early in the year were in various operating stages. Included in this group are three wells in the Gold Creek area of northwestern Alberta, the first of two wells scheduled for the St. Lawrence lowlands of Quebec, and a deep test on a drilling reservation in the Strachan area of southwestern Alberta.

Outside the fund, Husky participated in the drilling of eight exploratory wells in Canada and two in the U.S. The program included four tests in the Northwest Territories of Canada, and the first test on a 2.5-million-acre block of land in the Kandik Basin of the Yukon Territory.

The company purchased a 50 per cent interest in a drilling reservation in the north Strachan area of Alberta, a 25 per cent interest in a 32,000-acre parcel in the Sikanni River area of northeast British Columbia, and several lease parcels located in various areas of western Canada. In the Sikanni River area, the company completed a 70-mile seismic program and a test well is proposed for 1971. A seismic program is underway at Kiskatinaw, British Columbia.

Husky and the fund acquired 37,320 acres in the Medicine Hat area of southeast Alberta and 98,400 acres in the Fox Valley area of southwest Saskatchewan for the "Milk River" shallow gas play.

Preliminary results of marine seismic exploration on 2,128,000 acres off Cape Breton Island in eastern Canada have been encouraging, and exploratory drilling is anticipated by 1972.

A seismic program involving 100 miles was completed on Husky's 180,000-acre block in the Rock Springs uplift area of Wyoming's Green River Basin, and an additional 150-mile program was performed jointly by Husky and another company. Three exploratory wells are projected for 1971.

Seismic evaluation of Husky option lands in the Cow Lake and Burnstick Lake projects, which are in the general region of the Strachan-Ricinus prolific gas discoveries of Alberta, is continuing and is expected to result in a 1971 drilling program.

The company acquired a seismic option on additional lands in the Sturgeon Lake area of Alberta and results of a detailed seismic program will be available early in 1971.

DRILLING IN ST. LAWRENCE LOWLANDS OF QUEBEC AT 20 BELOW.

EXPLORATORY ACREAGE HOLDINGS AND RIGHTS ON DECEMBER 31, 1970

OIL AND GAS PROPERTIES

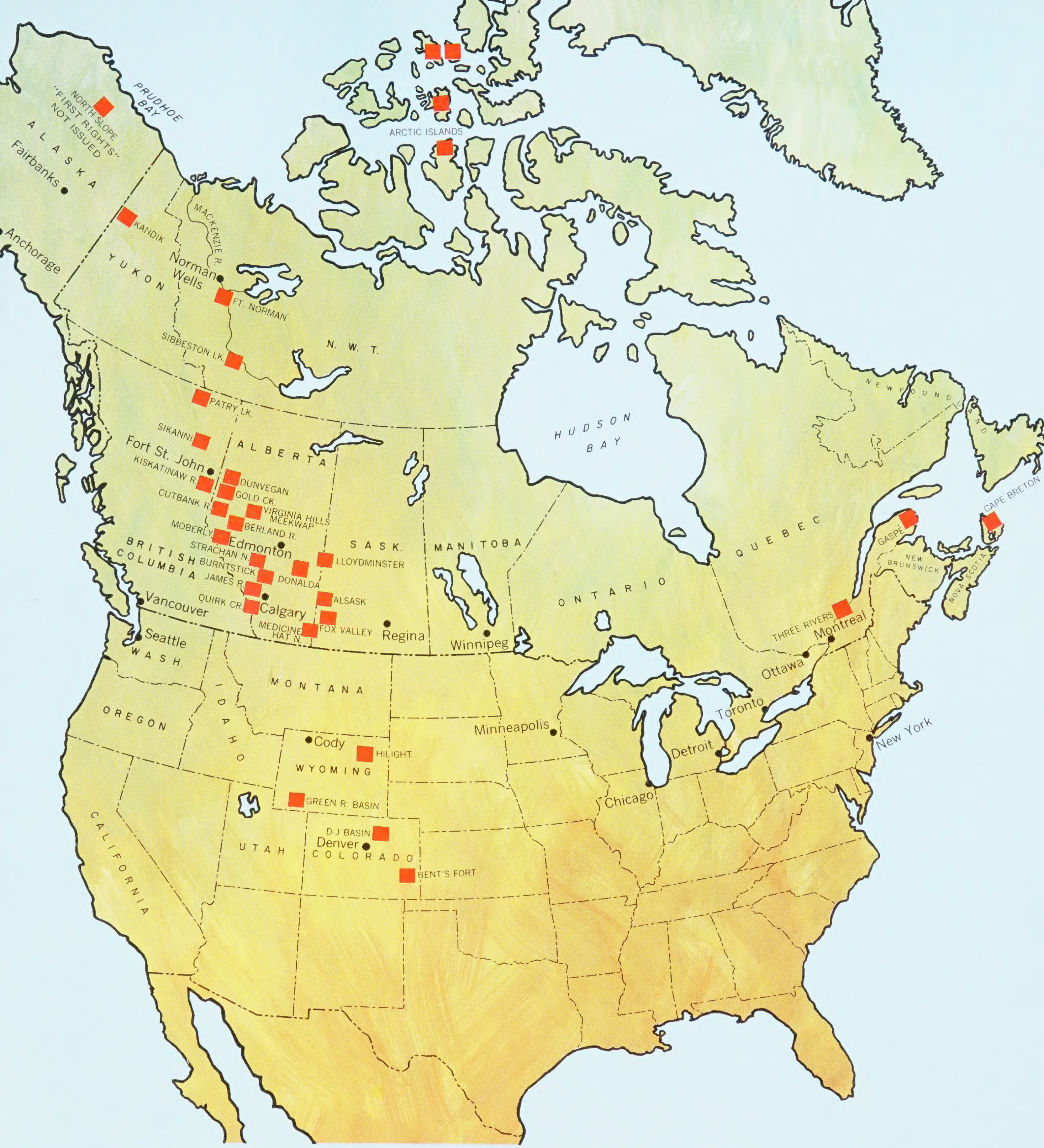
	(thousands of net acres)
CANADA	
Alberta	1,214
British Columbia	73
Nova Scotia	532
Saskatchewan	1,272
Arctic Islands	542
N.W.T. & Yukon	1,324
Quebec	242
Total Canada (1)	5,199
UNITED STATES	
Alaska (2)	240
Rocky Mountain Areas	675
Southwestern States	6
Other Areas	20
Total U.S.A. (1)	941
NORTH SEA	30

(1) Includes 145,000 net acres in Canada and 141,000 net acres in the United States owned by Empire State Oil Co.

(2) 231,000 net acres are subject to issuance as leases.

MINING CLAIMS AND PERMITS

	(thousands of net acres)
CANADA	
British Columbia	6
Manitoba	191
Saskatchewan	9
N.W.T. & Yukon	548
Total Canada	754
AUSTRALIA	
Northern Territory	780
New South Wales	468
Total Australia	1,248



EXPLORATION PLAYS IN WHICH HUSKY HAS AN ACTIVE INTEREST

AREAS ARE NOT SHOWN TO SCALE

In the Arctic Islands, Panarctic is drilling on Bathhurst and Amund Ringnes Islands. These wells form part of an earning program being conducted by Panarctic at no cost to Husky and involving a four-million-acre farm-out block. If completed, this earning program would leave Husky with a four per cent interest, but based upon the sizes of discoveries expected by the industry in the Arctic, this could have significant value to Husky.

Husky's 1970 minerals exploration program was highlighted by the acquisition of a 20 per cent participation in four-million acres in northern Australia. This program has been enlarged and Husky has taken a 25 per cent interest in an additional 1.8-million acres in southeastern Australia.

In British Columbia, Husky's 30 per cent participation in a diversified mineral exploration program of a mining enterprise continued. Prospecting added new properties, while existing holdings were evaluated.

Extensive mineral exploration programs were carried out in the Hudson Bay area of the southern Northwest Territories, in northern Saskatchewan, and in the Dawson Bay area of Manitoba. At Wollaston Lake in northern Saskatchewan, two large permits were evaluated and terminated, but a third permit was optioned from a group of small mining companies.

DRILLING FUND

The investment of approximately $30½-million in limited partnership units in Husky's drilling fund program, Husky Exploration, Ltd., was concluded in July, 1970.

Nearly 2,400 limited partners agreed to participate, with Husky as general partner, in a program of exploration for and development of oil and gas properties.

Limited partners pay for their units in seven installments during a 2½-year period, which ends December 31, 1972. More than $6-million was initially paid in July, 1970, and in excess of $5-million was received in the second installment in January, 1971.

In addition to limited partner funds, Husky invests an additional 20 per cent in the exploration portion of the program and 15 per cent in the Lloydminster area development drilling.

Husky will receive 30 per cent of production proceeds for exploration prospects until the limited partners have recovered 125 per cent of their costs in successful wells, after which Husky will receive 50 per cent of production proceeds. Lloydminster revenues are shared half and half.

James E. Nielson, a Husky vice president, was appointed to be full time coordinator of all drilling fund activities, with headquarters in Calgary, Alberta.

QUIRK CREEK GAS PLANT IN ALBERTA

PRODUCTION

Husky again led in Canadian drilling with a participation in 398 gross exploratory and development wells in 1970. In addition, 71 wells were drilled in the United States. A total of 291 development wells were drilled in 1,800-to-2,000-foot depths in the Lloydminster area, of which 262 were completed as producers. Included in the completions were 99 successful wells in the Lloydminster area drilled under the drilling fund partnership, Husky Exploration, Ltd.

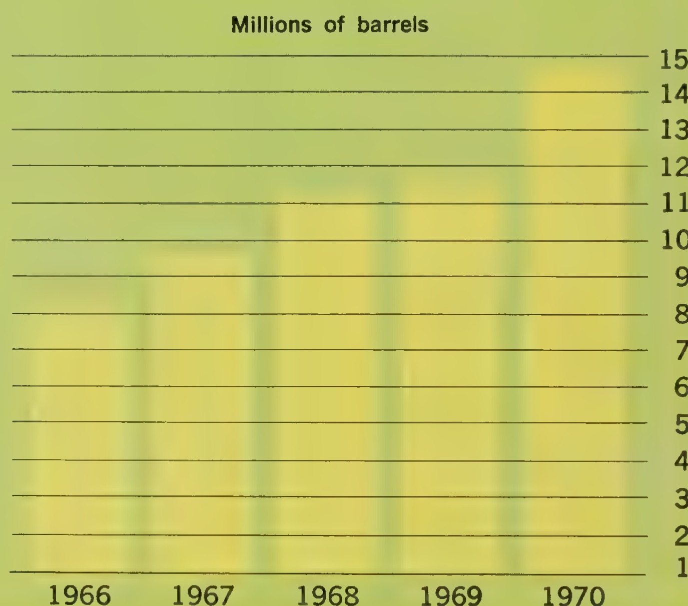
Our oil and equivalent gas production reached 44,500 barrels per day, an increase of 9,400 barrels per day over the 1969 level. Included in the total are 7,400 barrels per day resulting from the consolidation of Empire State Oil Company for the last nine months of 1970.

Production from the Lloydminster area on the Alberta-Saskatchewan boundary increased 2,100 barrels per day to a new high of 13,900 barrels per day. Increased drilling activity in the Lloydminster area continued into 1971.

The increase in Lloydminster blend sales from 21,600 barrels per day in 1969 to 29,600 barrels per day in 1970 is a positive indication of the growing market for asphaltic crude. In order to achieve these sales, Husky was required to step up its purchases of crude oil.

NET PRODUCTION CRUDE OIL AND GAS LIQUIDS

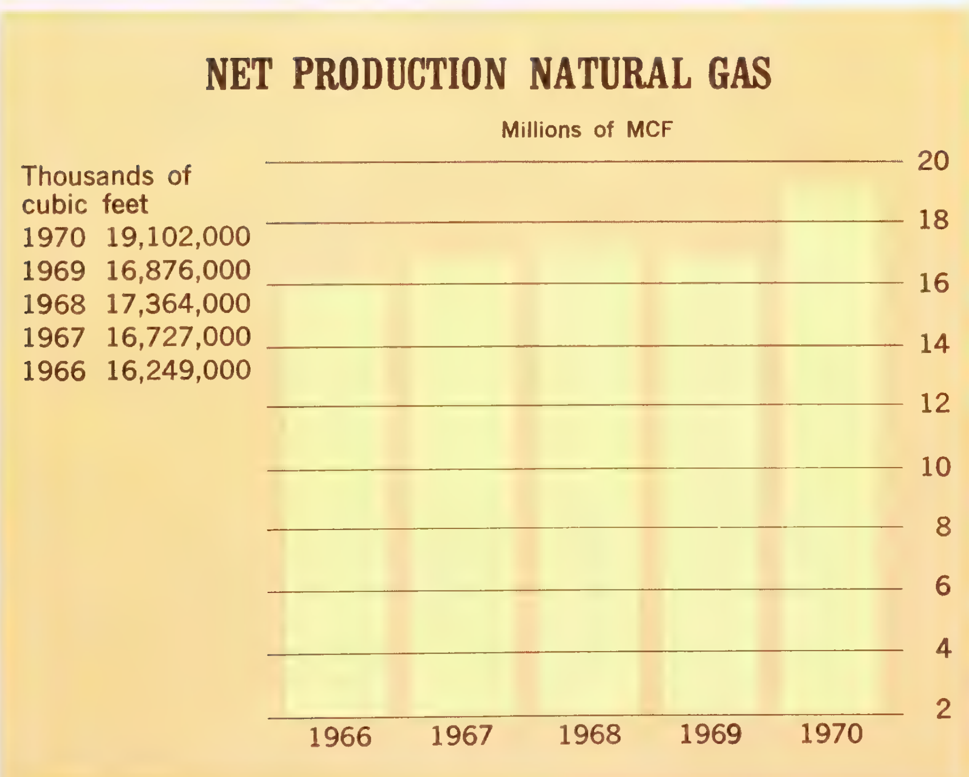
	Barrels
1970	14,785,000
1969	11,557,000
1968	11,221,000
1967	9,562,000
1966	8,095,000

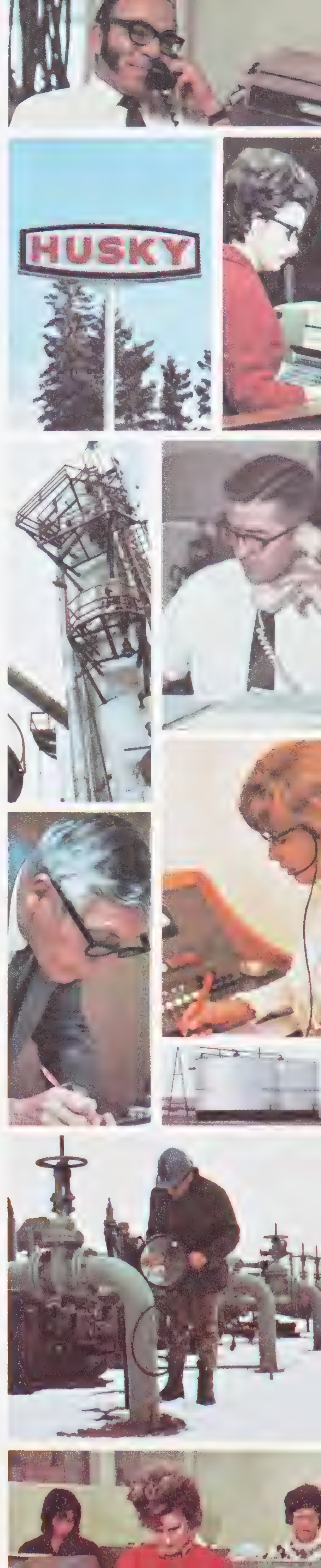


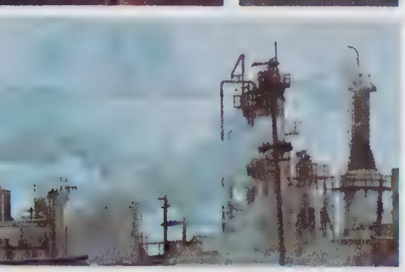
The posted wellhead price for Lloydminster crude was increased 40 cents to $1.97 per barrel, and Lloydminster blend was increased 35 cents to $2.60 per barrel at the Hardisty, Alberta, station on the Interprovincial Pipe Line. Husky led the Canadian industry in increasing its posted prices for crude oil. A general crude price increase in the United States and Canada of 25 cents per barrel occurred during the year.

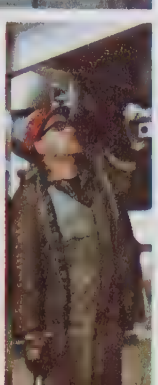
Husky purchased a varying interest in 61 producing wells in the highly-publicized Hilight field in northeastern Wyoming. The acquired wells are forecast to add an average of about 2,500 barrels per day of oil and equivalent gas to Husky's 1971 production. In addition to the producing wells, a 50 per cent interest in 15 drillable locations was acquired, and four producing wells and one non-producing well have been drilled. Four of the wells were drilled in partnership with the drilling fund and it is expected that the remaining undrilled locations will also be developed by the fund.

The Quirk Creek, Alberta, gas processing plant in which Husky has a 24 per cent interest started operation in early 1971. This plant has a capacity of 90-million cubic feet per day.









Secondary recovery in Lloydminster was emphasized in 1970 with expanded waterflood operations in the South Aberfeldy, Northminster, Devonia Lake and Big Gully units. Encouraging results are being obtained from the polymer flood in the Aberfeldy unit. This is a process of chemical additives designed to increase the recovery of crude oil.

The two Lloydminster pilot firefloods were expanded to include additional wells and compressor capacity. Progress has been made in operating problems related to the production and treating of sandy oil. Although it is too early for economic evaluation of these pilots, increasing crude prices obviously enhance the feasibility of the process.

NET OIL AND EQUIVALENT NATURAL GAS PRODUCTION

(thousands of barrels)

	1970	1969
CANADA		
Alberta	4,197	2,901
Saskatchewan	1,112	943
Lloydminster	5,074	4,313
Other Areas	2	3
Total Canada	10,385	8,160
UNITED STATES		
Colorado	299	359
Montana	94	228
New Mexico	847	760
Texas	406	440
Wyoming	3,830	2,559
Other Areas	365	318
Total U.S.A.	5,841	4,664
Total*	16,226	12,824

*Includes 2.7-million bbls. produced after April 1, 1970, by Empire State Oil Co.

NET RESERVES OF OIL AND EQUIVALENT NATURAL GAS AND SULPHUR

(millions of barrels)

	Proved	*Probable*	*Possible*	*Total*
Lloydminster	57.2	18.9	23.8	99.9
Other Canada	90.1	9.0	29.2	128.3
U.S.A.	69.9	10.2	1.5	81.6
Total*	217.2	38.1	54.5	309.8

*Includes 37.3-million proved bbls. and 3.9-million probable bbls. owned by Empire State Oil Co.

Two areas of the Bell Creek field of Montana were unitized in 1970. Water injection was initiated with oil response noted from a few wells in the field. Our remaining interest in Bell Creek is scheduled for unitization and secondary recovery in 1971.

Husky's reserves of proved oil and equivalent gas and sulphur were 217.2-million barrels, including those resulting from the consolidation of Empire State Oil Company.

NET OIL AND GAS PRODUCTION

	Oil & Gas Liquids (thousands of barrels)		*Natural Gas (millions of cubic feet)*	
CANADA	**1970**	**1969**	**1970**	**1969**
Alberta	3,352	2,181	10,562	9,012
Saskatchewan	992	853	1,500	1,126
Lloydminster	5,042	4,278	399	418
Other Areas	—	—	26	35
Total Canada	9,386	7,312	12,487	10,591
UNITED STATES				
Colorado	293	348	90	171
Montana	92	225	26	38
New Mexico	555	481	4,380	4,185
Texas	329	369	1,155	1,057
Wyoming	3,793	2,527	555	483
Other Areas	337	295	409	351
Total U.S.A.	5,399	4,245	6,615	6,285
Total*	14,785	11,557	19,102	16,876

*Includes 2.6-million barrels of oil and 1.1 billion cubic feet of gas produced after April 1, 1970, by Empire State Oil Co.

SUMMARY OF WELLS DRILLED IN 1970

	Gross Wells				*Net Wells*			
	Oil	*Gas*	*Dry*	*Total*	*Oil*	*Gas*	*Dry*	*Total*
Exploratory Drilling	20	14	60	94	19.5	13.1	47.1	79.7
Development Drilling	336	7	32	375	210.5	3.7	29.7	243.9
Total Drilling*	356	21	92	469	230.0	16.8	76.8	323.6

*Includes 26 gross wells and 15.9 net wells drilled after April 1, 1970, by Empire State Oil Co.

CLASSROOM IN NEW DEALER TRAINING CENTER

NEW SERVICE CENTER DEALER TRAINING STATION, DENVER, COLORAD

NEW SERVICE STATION, DENVER, COLORADO

REFINING AND MARKETING

The profit performance of the Marketing and Refining Department showed an upswing during 1970. Increased volumes, improved class of trade mix, the firming up of all refined product prices, including heavy and light oils, the reduction of selling costs, and revamped distribution patterns more than offset crude oil and labor cost increases.

Marketing volume in 1970 increased 8 per cent over 1969 and included a 10 per cent gain in light oil volume made up of gasoline and distillates. Refined product sales in 1970 totaled 20,791,000 barrels.

Refining throughput in 1970 was 50,000 barrels per calendar day, an increase of 4 per cent over 1969.

The rebranding of 800 Frontier service stations to the Husky brand was completed. In addition, an extensive upgrading program was completed for selected stations, and they underwent substantial remodeling. This program enabled the Husky brand to enter the old Frontier marketing areas with impact and improved the company's retail image in all Husky's marketing areas.

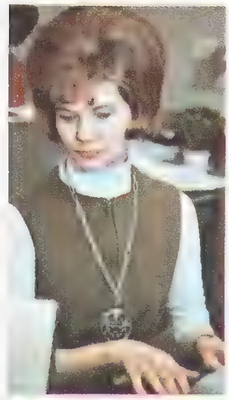
Three new programs were instituted in 1970 in Husky's objective to improve dealer service to the motoring public. Dealer financing now enables Husky to select dealers on the basis of ability and potential. A spring zodiac glass advertising and promotion program with the theme, "Check Your Sign Under Our Sign", provided a vehicle for many dealers to introduce the Husky sign to their customers. The third program involved opening the Husky Training Center in Denver, Colorado. All Husky dealers in the United States and Canada have been invited to attend the two-week graduate school, with a curriculum evenly divided between product knowledge and selling techniques and financial and operating management and vehicle services.

Our travelcenter-truckstop chain was enlarged with three new openings at Kenora, Ontario; Hinton, Alberta, and Blue River, British Columbia. In addition, one was purchased in Spokane, Washington. A new travelcenter is scheduled for spring, 1971, opening in Casper, Wyoming.

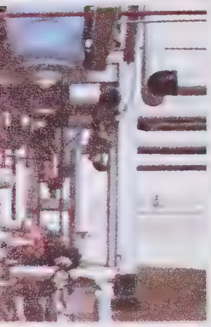
Newly-constructed service stations also were opened last year in Wendover, Utah, and Denver. Steamboat Springs, Colorado, will open in the spring of 1971.

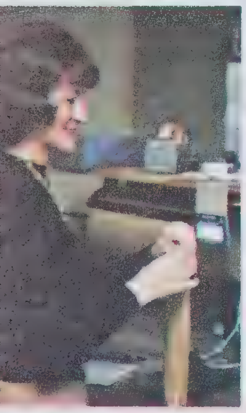
During 1970 an intensive study was made of all U. S. Husky refineries to determine the company's future posture. Engineering design studies have been contracted for the modernization of Cheyenne and similar studies will be made for the modernization of Salt Lake. The objectives of the program are:

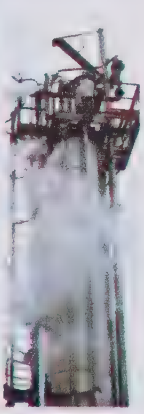
- To upgrade product quality so that Husky can supply non-leaded gasoline when the nation requires it.
- Modernize air and water pollution control systems.
- Improve productivity through increased yields and more efficient operations.











The modernization program at Cheyenne has been initiated and financed and a contract for an alkylation unit has been let. Additional bids for the remaining units will be requested in the spring, and the Cheyenne program should be completed in the first quarter of 1972.

A reformer has been contracted for Salt Lake and should be in operation by the end of 1971. Engineering studies for the other units required to modernize Salt Lake will be available early in 1971.

When completed, the program will enable Husky to compete in quality with the best in the area, and our efficiency will be much improved.

REFINERY RUNS

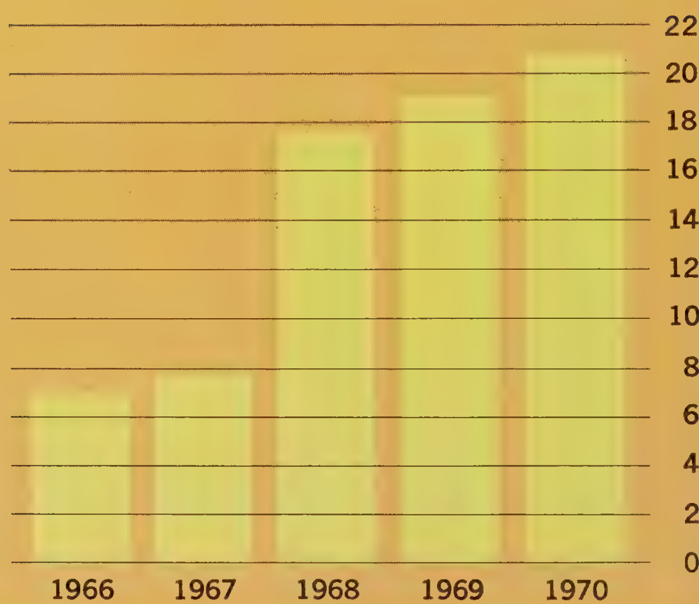
(thousands of barrels)

Refinery:	1970	1969
Cheyenne, Wyoming	6,503	5,978
Cody, Wyoming	4,126	4,237
Lloydminster, Alberta	2,578	2,349
Moose Jaw, Saskatchewan	1,212	1,137
Salt Lake City, Utah	3,847	3,779
	18,266	17,480

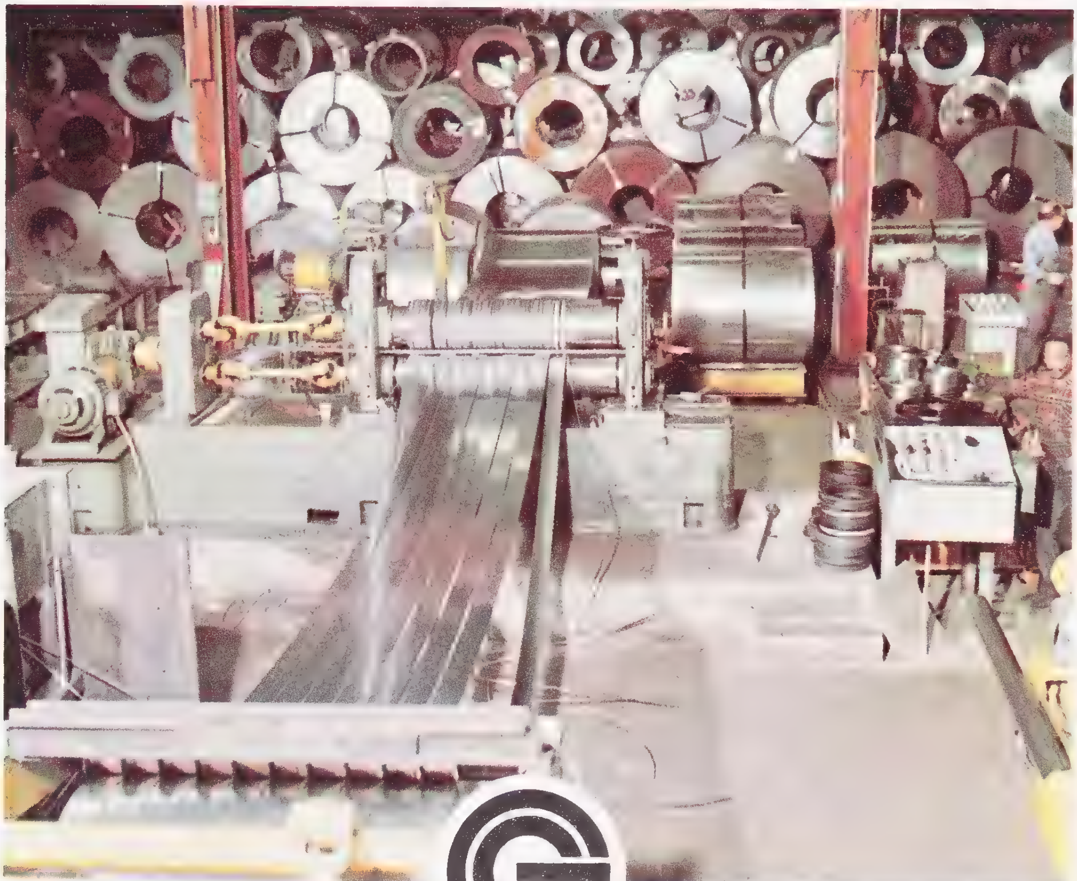
REFINED PRODUCT SALES

Millions of Barrels

Barrels	
1970	20,791,000
1969	19,246,000
1968	17,762,000
1967	7,939,000
1966	7,053,000



STEEL SLITTING LINE AT GATE CITY'S NOLDER FACILITY, CHICAGO.



BRIQUETTING

The sales volume of Husky Briquetting, Inc. increased 18 per cent and total dollar sales increased 20 per cent in 1970. However, cost of sales increased 25 per cent. The subsidiary experienced production problems related to raw material conversion and new equipment, and lower than anticipated prices in some markets affected profitability.

During the latter part of 1970, Briquetting acquired the assets of the Brix Division of Timberland Products Co. in New York, and the instant-lighting charcoal product of this acquisition will be incorporated in the market line.

James E. Nielson, a Husky vice president, was transferred from the presidency of Briquetting in order to assume the organization and operation of Husky's drilling fund. M. Dale Ensign, vice president of Administrative Services, was given the additional responsibility of the presidency of Briquetting. Experienced personnel were added to strengthen manufacturing management. The sales office was moved to Minneapolis, Minnesota, from Briquetting headquarters at Cody, Wyoming, to accomplish greater direction of increasing volume of sales in the eastern United States and Canada.

GATE CITY STEEL

During 1970 Gate City Steel, in which Husky has an 88 per cent interest, applied new emphasis to its steel service center and steel processing operations. Management considers these are areas of favorable long-range growth and profit potential. Service center sales in the year increased $1-million to $18-million, and steel processing sales rose $300,000 to $3-million. Total sales were $30.1-million last year, compared with $29-million in 1969. Net profit was $1.6-million in 1970 and $1.8-million in 1969.

On January 1, 1971, Gate City greatly expanded steel processing capabilities in the large Chicago market area by the purchase of Nolder Steel Company of Chicago.

In a significant development, Gate City disengaged from the heavy structural fabrication business during 1970 and in early 1971. The structural fabrication activity at the Omaha, Nebraska, plant was discontinued by June of 1970, and the sale of the fabrication plant at Pocatello, Idaho, was completed in early 1971. With the new acquisition and the phasing out of the structural business, the profit picture should be materially improved for 1971.

FINANCIAL SUMMARY

*NET EARNINGS BEFORE EXTRAORDINARY ITEMS

FINANCIAL

ACQUISITIONS AND DISPOSALS

Husky's financial statements for 1970 are affected by transactions involving acquisitions and disposals which took place during 1970 or shortly after the end of the year. Our interests in offshore contract drilling rigs were disposed of as of May 31, 1970. The proceeds from the sale of the assets involved was $5.8-million cash, assumption by the purchaser of debt including $10-million in balance sheet debt, and a potential $10-million in off balance sheet debt guaranteed by Husky. The primary motivation for this sale resulted from studies indicating that $50 to $75-million would be required in the next five years in order to maintain the company's viability in this business. Although this transaction had no material affect on Husky's earnings from operations, it adversely affected sales and cash flow. The disposal of these assets resulted in a loss of $1.7-million, which is treated as an extraordinary charge in the 1970 earnings.

Effective April 1, 1970, Husky acquired additional shares of Curtis Inc. at a cost of $6.5-million, represented by seven per cent notes having a final maturity of 20 years, resulting in a 66 per cent interest in that company. Previously Husky had held an approximate one-third interest in Curtis. The main asset of Curtis was 55 per cent of the outstanding common stock of Empire State Oil Company and various other assets included a ranch, royalties, and marketable securities. Empire State is primarily a producing oil company, with about 10,000 barrels per day of oil and equivalent gas production, two-thirds of which is in Wyoming and one-third in Alberta. It also has a substantial amount of cash and a portfolio of securities.

In January of 1971, Husky and the remaining owners of Curtis Inc. carried out an agreement resulting in the liquidation of Curtis, with Husky receiving the Empire shares and the other parties receiving the other assets of Curtis plus additional consideration from Husky. Following this transaction Husky directly owned 55 per cent of Empire State Oil.

As a result of these transactions, Husky has consolidated Curtis and Empire State into its accounts for the last nine months of 1970.

FINANCIAL INFORMATION

Husky's consolidated net earnings of $6,974,000 in 1970, before an extraordinary charge of $1.7-million, compared with $7,865,000 in 1969.

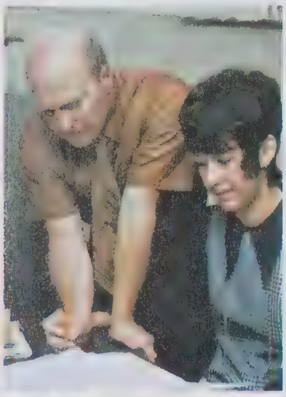
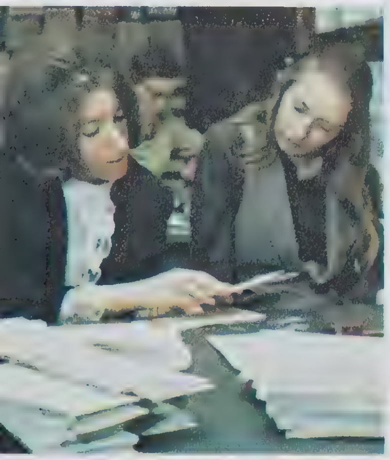
A cash flow increase of $2.3-million to $26.6-million, equal to $2.75 per share, was largely accounted for by the consolidation of Empire State Oil in the last nine months of 1970. Cash income increases from other operational areas were offset by the loss of cash income from offshore contract drilling rigs for the last seven months following their disposal.

Consolidated sales and operating revenues totaled nearly $183-million, a gain of 12 per cent from 1969. Of this increase, about $7-million came from the consolidation of Empire State Oil in our accounts, and an increase of $12-million from continuing operations after reductions resulting from the sale of our offshore drilling assets. Sales increases were experienced throughout all of the company's operations but were most significant in the Refining and Marketing area where sales were up 14 per cent.

The 1970 earnings per share, before the extraordinary charge of 18 cents per share, were 67 cents after provision for dividends on preferred shares, a 12 per cent reduction from 1969 earnings of 76 cents per share.





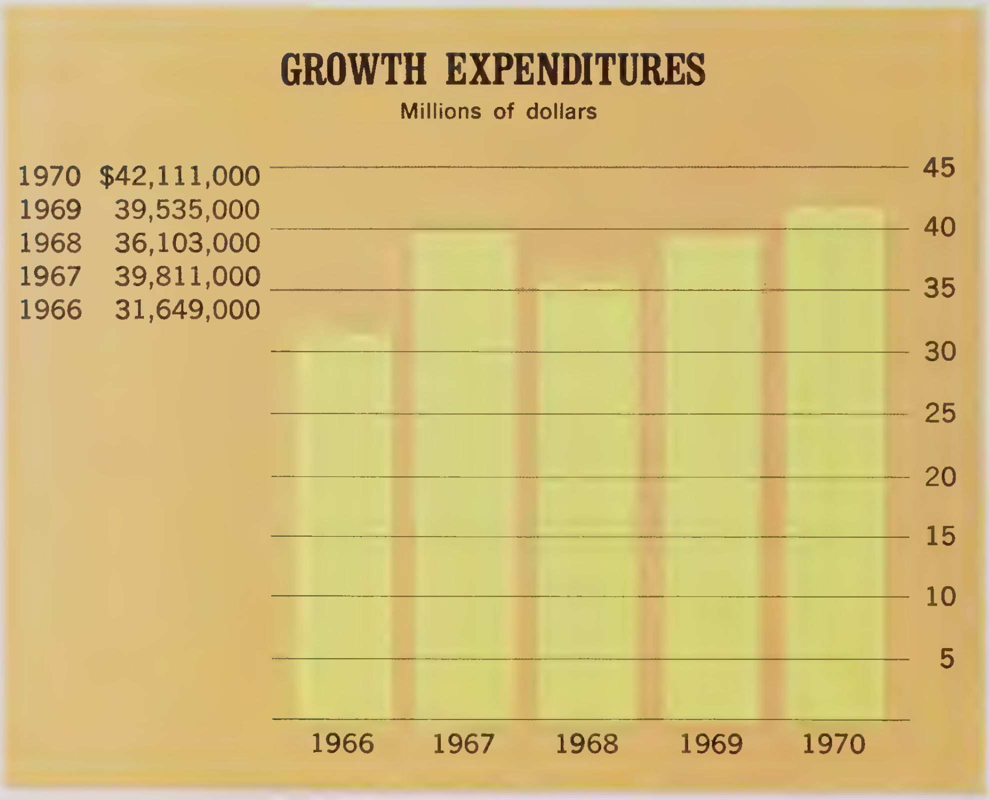
CASH GROWTH EXPENDITURES

(thousands of dollars)

	1970	1969
Exploration	$ 8,701	$ 9,246
Development and acquisition of producing properties and pipeline facilities	20,630	14,581
Refining, marketing, manufacturing and other	12,280	12,910
Investments and other acquisitions*	500	2,798
	$42,111	$39,535

*Excludes the acquisition of Curtis Inc. shares in 1970.

The reduction in earnings from operations was largely attributable to extremely high interest rates existing in 1970 on that part of the company's debt which was tied to bank prime rates, and to an adverse year-to-year change in miscellaneous expense of more than $1-million. This included mining claim writeoffs, foreign exchange losses and loss on disposal of miscellaneous properties no longer required in the company's operations. These expense increases were partially offset by higher net income from most of our operating areas, particularly Refining and Marketing, which benefitted from price improvments in the United States and from an upgrading in sales resulting from new service stations and substantial modifications to older stations acquired in the Frontier acquisition.

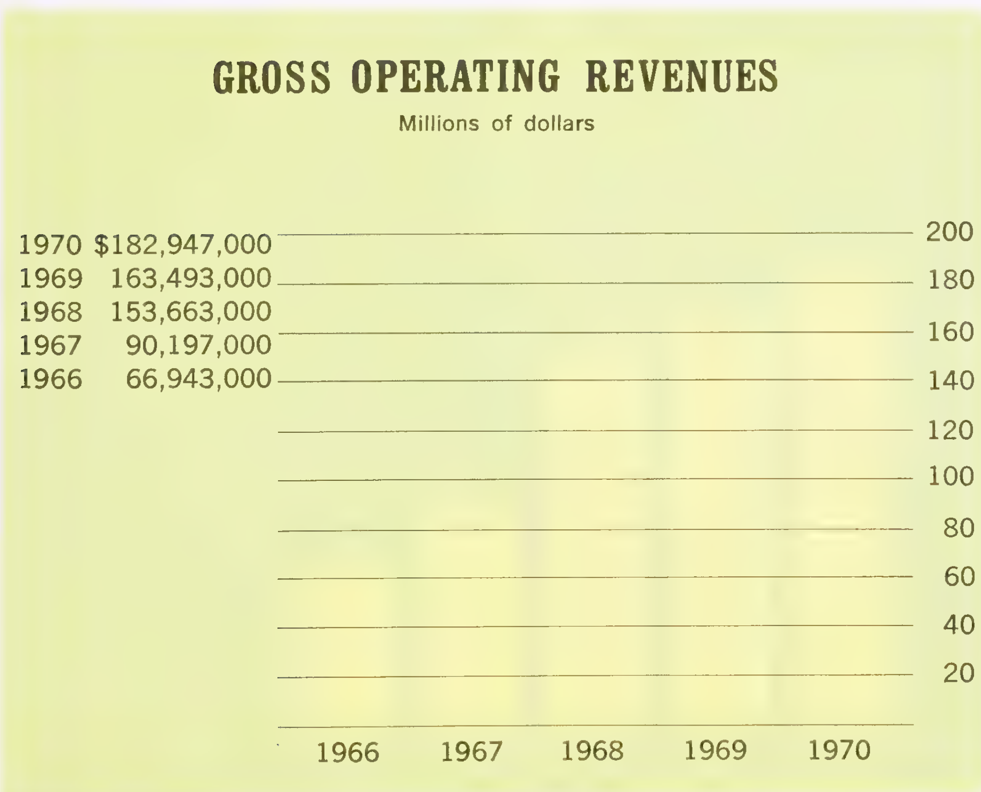


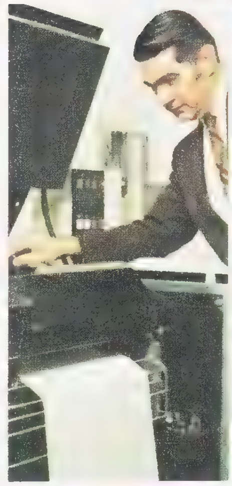
Growth expenditures for 1970 were approximately $42-million including about $1.5-million spent by Empire State which is consolidated into our accounts. These expenditures compare to $39.5-million in 1969. Included in the 1970 expenditures was $5.3-million for the producing wells and drillable locations in the Hilight field of Wyoming which were purchased in December of 1970. The internal work program costs related to continued activities at Lloydminster, largely of a developmental nature, of $11.7-million; $12-million for exploration and development outside the Lloydminster area, and $9.9-million for refining and marketing.

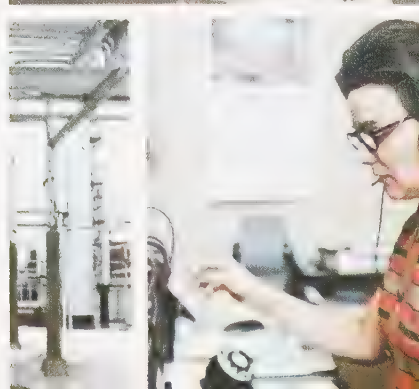
This total growth program was in excess of our cash flow for the year and was partially covered by the sale of drilling company assets and by a net increase in long term obligations of $9-million to $113-million.

We have sufficient money available from banks to carry out our 1971 programs. However, we have not placed any substantial long term financing for several years and it is likely that the company will avail itself of the current improvement in financial climate to market a long term debt issue. The major part of the expenditures which we will make at the Cheyenne refinery in 1971 and 1972 is expected to be covered by a leaseback agreement.

No changes were made during the year in the deferred cost of our leases in the Santa Barbara Channel. Hearings in the lawsuit against the U.S. government, instituted by ourselves and our partners in this venture, are reaching conclusion and it is expected that a decision will be handed down some time in 1971. When this decision is received, we will review the accounting treatment of the costs related to this venture.







HUSKY

CONSOLIDATED BALANCE SHEET

ASSETS	1970	1969
CURRENT ASSETS		
Cash and short term deposits	$ 16,069,000	$ 5,467,000
Marketable securities - at cost which approximates market	4,494,000	35,000
Accounts and notes receivable	30,287,000	29,752,000
Inventories at lower of cost or replacement market	20,065,000	21,689,000
Prepaid expenses	380,000	431,000
Total current assets	71,295,000	57,374,000
NON-CURRENT ASSETS		
Notes and contracts receivable, less amounts due within one year included in current assets above (including $2,559,000 receivable from directors and officers.) (Note 2)	7,072,000	7,282,000
Investment in non-subsidiary company, at cost (Note 1)	—	5,094,000
Sundry investments and miscellaneous assets - at cost less amounts written off	2,958,000	2,888,000
Unrecovered costs - Santa Barbara project (Note 3)	7,207,000	7,207,000
	17,237,000	22,471,000
PROPERTY, PLANT AND EQUIPMENT - at cost (Note 3)		
Oil and gas properties and equipment	162,609,000	137,568,000
Refining, manufacturing, marketing, transportation facilities and other assets (including land of $14,296,000)	131,899,000	110,411,000
Drilling rigs and equipment	—	21,813,000
	294,508,000	269,792,000
Less - accumulated depreciation	56,482,000	55,991,000
- accumulated depletion	21,071,000	19,502,000
	77,553,000	75,493,000
	216,955,000	194,299,000
Less unpaid production payments	9,576,000	10,998,000
	207,379,000	183,301,000
OTHER ASSETS - at cost less amounts written off		
Debt discount and expense	2,168,000	2,499,000
Trademarks	599,000	599,000
Other intangible assets	1,255,000	5,050,000
	4,022,000	8,148,000
	$299,933,000	$271,294,000

Approved on behalf of the Board:
Gene E. Roark, Director
Arnold Larsen, Director

DECEMBER 31, 1970

(With Comparative Figures at December 31, 1969)

HUSKY OIL LTD. AND SUBSIDIARIES

LIABILITIES	1970	1969
CURRENT LIABILITIES		
Notes payable to banks	$ 3,752,000	$ 6,504,000
Accounts payable and accrued expenses	24,949,000	22,428,000
Dividends payable on preferred shares	47,000	49,000
Current portion of long term debt	12,065,000	13,005,000
Total current liabilities	40,813,000	41,986,000
DEFERRED CREDITS	2,916,000	3,966,000
LONG TERM DEBT (Note 4)	110,284,000	100,371,000
CAPITAL AND SURPLUS		
Minority shareholders of consolidated subsidiary companies		
Preferred shares (Note 5)	5,874,000	6,002,000
Common shares	944,000	2,000
Surplus	18,598,000	1,207,000
Total minority interest	25,416,000	7,211,000
Shareholders of Parent Company (Note 5)		
Cumulative, redeemable, preferred shares par value $50 each; Authorized 1,000,000 shares:		
Series A, 6% Issued 58,763 shares 1969, 60,858 shares	2,938,000	3,043,000
Series B, 6% Issued 164,867 shares 1969, 170,750 shares	8,243,000	8,538,000
Series W, X, Y and Z, Convertible, 4% Issued 20,800 shares	1,040,000	1,040,000
Common shares, par value $1 each; Authorized 15,000,000 shares; issued 9,411,914 shares; 1969, 9,411,039 shares	9,412,000	9,411,000
Undistributable capital surplus arising from purchase and redemption of preferred shares	2,388,000	1,988,000
Other paid in capital	68,820,000	68,815,000
Retained earnings	27,663,000	24,925,000
Total capital and surplus of parent company shareholders	120,504,000	117,760,000
Total capital and surplus, including minority interest	145,920,000	124,971,000
Commitments and Contingencies (Notes 1 and 6)		
	$299,933,000	$271,294,000

See accompanying notes.

CONSOLIDATED STATEMENT OF EARNINGS

For the Year Ended December 31, 1970 (With Comparative Figures for 1969)

	1970	1969
INCOME		
Sales and operating revenues	$182,947,000	$163,493,000
DEDUCTIONS		
Cost of sales and operating expenses	131,447,000	117,231,000
Selling, general and administrative expenses	15,551,000	14,443,000
Interest (net of interest income of $1,153,000 in 1970 and $698,000 in 1969) (Note 4)	8,842,000	8,264,000
Miscellaneous - net	562,000	(558,000)
Provision for U.S. income taxes (Note 7)	441,000	—
Depreciation and amortization	9,461,000	9,220,000
Depletion (Note 3)	7,323,000	6,273,000
Minority interest in earnings of subsidiaries:		
Preferred share dividends	389,000	405,000
Profits	1,957,000	350,000
	175,973,000	155,628,000
Net earnings before extraordinary charge (per share: 1970 - $0.67; 1969 - $0.76)	6,974,000	7,865,000
Loss on disposal of offshore contract drilling operations (per share - $0.18) (Note 1)	1,711,000	—
NET EARNINGS (per share: 1970 - $0.49; 1969 - $0.76) (Notes 3 and 8)	$ 5,263,000	$ 7,865,000

CONSOLIDATED STATEMENT OF SURPLUS

For the Year Ended December 31, 1970 (With Comparative Figures for 1969)

	Other Paid in Capital		Retained Earnings	
	1970	1969	1970	1969
Balance at beginning of year (from January 1, 1963 for Retained Earnings)	$68,815,000	$68,446,000	$24,925,000	$21,018,000
Add:				
Excess of consideration received over par value of common shares issued (Note 5)	5,000	369,000	—	—
Net earnings for the year	—	—	5,263,000	7,865,000
	68,820,000	68,815,000	30,188,000	28,883,000
Deduct:				
Cash dividends on preferred shares			694,000	716,000
Cash dividends on common shares			1,412,000	2,823,000
Provision for redemption of preferred shares			419,000	419,000
			2,525,000	3,958,000
Balance at end of year	$68,820,000	$68,815,000	$27,663,000	$24,925,000

See accompanying notes.

CONSOLIDATED STATEMENT OF SOURCE AND USE OF FUNDS

For the Year Ended December 31, 1970 (With Comparative Figures for 1969)

	1970	1969
Funds were obtained from:		
Net earnings after extraordinary charge	$ 5,263,000	$ 7,865,000
Add non-cash items - net	21,303,000	16,379,000
Net cash income from operations	26,566,000	24,244,000
Increase in long term debt - net of retirements of $24,196,000 in 1970 and $18,606,000 in 1969	8,819,000	6,733,000
Issue of preferred shares	—	640,000
Issue of common shares	6,000	402,000
Minority interest arising on consolidation of Curtis Inc.	17,734,000	—
Investment on Jan. 1, 1970 in Curtis Inc. eliminated on consolidation	5,094,000	—
Sale of assets	21,780,000	3,937,000
Sale of investments	30,000	30,000
	80,029,000	35,986,000
Funds were used for:		
Additions to property, plant and equipment		
Departmental growth expenditures	41,611,000	36,737,000
Consolidation of Curtis Inc. on April 1, 1970	18,327,000	—
	59,938,000	36,737,000
Additions to investments and other assets	—	2,797,000
Acquisitions of interest in subsidiaries	500,000	—
Retirement of preferred shares	900,000	1,087,000
Dividends on shares of parent company		
Preferred	694,000	716,000
Common	1,412,000	2,823,000
Dividends to minority shareholders	1,029,000	405,000
Increase in non-current notes receivable	(107,000)	902,000
Other	569,000	(1,968,000)
	64,935,000	43,499,000
Increase (decrease) in working capital	$ 15,094,000	$ (7,513,000)

See accompanying notes.

AUDITORS' REPORT TO THE SHAREHOLDERS

We have examined the consolidated balance sheet of Husky Oil Ltd. and subsidiaries as of December 31, 1970, and the consolidated statements of earnings, surplus and source and use of funds for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion, subject to any adjustment which may result from the ultimate outcome of the litigation described in Note 3 to the consolidated financial statements, these financial statements present fairly the financial position of the company and subsidiaries at December 31, 1970, and the results of their operations and the source and use of their funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Peat, Marwick, Mitchell & Co.

Chartered Accountants

Calgary, Alberta
March 4, 1971.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(1) The consolidated financial statements include all subsidiary companies. The accounts of United States subsidiaries are included at $1 U.S. = $1 Canadian.

Effective April 1, 1970, Husky Oil Company of Delaware increased its investment in Curtis Inc. to $11,630,000, (66.2% of the outstanding common shares of Curtis). The principal asset of Curtis Inc. was 1,073,782 (55%) of the outstanding common shares of Empire State Oil Company. The consolidated accounts of Curtis Inc. are included in the consolidated financial statements on the purchase basis of accounting from April 1, 1970. The accounts of Empire State Oil Company have been restated in consolidation to conform to the Company's method of accounting for oil and gas properties as described in Note 3. In January, 1971, an additional interest in Curtis Inc. was purchased at a cost of approximately $5 million, Curtis Inc. was liquidated, and Husky Oil Company of Delaware acquired direct ownership of the 55% of the common stock of Empire State Oil Company.

Effective May 31, 1970, the Company and its subsidiaries sold their offshore contract drilling operations. As a result, the companies incurred an extraordinary charge to earnings of $1,711,000.

(2) The long term notes receivable from officers and directors include one non-interest bearing note for $1,519,000 principal amount, due in 1977, against which is pledged 100,000 shares of the common stock of the Company. The remaining interest bearing notes have an aggregate principal amount of $1,040,000 maturing at various dates in 1977, 1978, and 1979, against which are pledged 20,800 Series W, X, Y, or Z convertible preferred shares of the Company.

(3) In 1968, Husky Oil Company of Delaware acquired an approximate 10% interest in two oil and gas leases off the coast of California for $8,518,000 and capitalized interest of $491,000 on funds borrowed to finance the purchase. The cost of the leases (and capitalized interest) was to be taken into depletable costs in five equal annual instalments commencing in 1968, subject to change in the event commercial production was established or the leases abandoned during this period. Accordingly, $1,802,000 was added to depletable costs in 1968.

On February 17, 1969, the Secretary of the Interior of the United States of America amended the regulations relating to drilling for oil and gas on the outer continental shelf and imposed an unlimited liability, regardless of fault, for damage caused by oil escaping. The Secretary also suspended drilling on the aforesaid leases. These actions made it economically and practically impossible to continue further exploration. As a result, exploratory operations on the leases were discontinued and several companies including Husky Oil Company of Delaware filed suit against the United States of America requesting repayment of acquisition and exploratory costs incurred or compensation for the value of the leases. The government is defending the suit vigorously and, in the opinion of counsel for the companies, it is impossible to predict the outcome of this litigation at this time.

The residual cost of $7,207,000 which had not been added to depletable costs, was reclassified as a noncurrent asset in 1969 pending disposition of the suit. Any costs which are not recovered by the suit will be added to depletable costs. Had total costs been taken into depletable costs in 1970, the provision for depletion for 1970 would have been increased by $679,000 with a corresponding decrease in reported earnings, equal to $0.07 per share.

All other costs and expenses of exploring for and developing oil and gas reserves in North America are capitalized and are depleted (including for this purpose only the effective ownership of properties owned by less than wholly-owned subsidiaries) on composite unit of production methods based on proved developed oil and gas reserves.

The cost of certain oil and gas properties includes the amounts of retained production payments payable solely from production. As these payments are liens against the properties and not a direct liability, the balances are deducted from the property, plant and equipment accounts. Production income dedicated to these payments is included in earnings on a gross basis so as to reflect the gross income and all expenses applicable to the properties. Alternate accounting for these payments (the net method) includes in cost of the properties the purchase price exclusive of these payments and does not include in earnings production income dedicated to the payments. Selection of the gross method has increased the following accounts by the amounts shown:

Sales and operating revenues	$2,030,000
Depletion	1,033,000
Interest	481,000
Production taxes	127,000
Net earnings	$ 389,000

Commencing in 1970, the Company and a subsidiary engaged in certain exploration and development ventures as general partners of a drilling fund, Husky Exploration, Ltd., a limited partnership. Limited partnership units aggregating $30,370,000 were subscribed by the general public, of which $6,745,000 was paid in 1970. The Companies share of partnership costs for exploration and development ranging from 16% to 22% (after adjustment to compensate for a portion of the underwriting commission) is included in oil and gas properties.

(4) Long term debt (partly secured) at December 31, 1970 consisted of:

	Husky Oil Ltd. and Canadian Subsidiaries (Cdn. $)	Husky Oil Company of Delaware and Subsidiaries (U.S. $)
Sinking Fund Debentures		
6% Series A, 1984	$ 15,277,000	
6¾% Series B, 1987	18,997,000	
Term Bank Loans		
7% due 1973 (U.S. $5,000,000)	5,400,000	
9½% due 1973 (U.S. $3,000,000)	3,090,000	
7% annually to 1973		6,000,000
7¾% annually to 1975		5,000,000
7¾% monthly to 1975	7,800,000	
7¾% monthly to 1975		5,586,000
8¼% due 1975		5,500,000

(4) Long term debt (cont.)

	Husky Oil Ltd. and Canadian Subsidiaries (Cdn. $)	Husky Oil Company of Delaware and Subsidiaries (U.S. $)
Secured Notes and Debentures		
5-5/8% to 8½%, 1971 to 1984 (1) includes $446,000 payable in U.S. funds of $414,000	846,000(1)	23,678,000
6¾% Serial First Mortgage Bonds, 1978		3,615,000
Other secured notes and contracts	451,000	3,899,000
Unsecured notes and contracts		9,814,000
Long term lease obligations		7,396,000
	51,861,000	70,488,000
Less amounts due in one year	1,196,000	10,869,000
	50,665,000	59,619,000
U.S. Subsidiaries	59,619,000	
	$110,284,000	

Included in term bank loans and notes and contracts are debt instruments aggregating $39,413,000 with fluctuating interest rates ranging from ¼% to 1½% above bank prime rate or similar measurements in other financial markets.

Interest on long term debt in 1970 was $9,064,000. Certain properties and other assets having an aggregate cost of approximately $151,000,000 are specifically mortgaged or pledged as collateral for production loans and other secured obligations.

(5) During 1970, 875 common shares were issued for cash of $6,000.

The Series A and B preferred shares require annual sinking funds to redeem 2,100 Series A shares at $53.50 per share and 5,850 Series B shares at $52.50 per share.

Subsidiary companies will be required to redeem preferred shares of $558,000 par value in 1971.

Common shares have been reserved for issue as follows:

297,208 shares for Series D stock purchase warrants at exercise prices escalating from $14.50 to $16.50 per share, expiring June 30, 1974.

70,790 shares under a share option plan for officers and employees at prices ranging from $5.00 to $12.94 per share during the years 1971 to 1975. In 1970 options were exercised as to 850 shares at $6.77 per share.

50,000 shares for conversion of the Series W, X, Y and Z convertible preferred shares at $20 per share as to 40,000 shares and $24 per share as to 10,000 shares.

(6) The Company and its subsidiaries have outstanding commitments or contingencies as follows:

(a) Long term lease agreements with fixed annual rentals aggregating $3,012,000 including $1,176,000 for royalty free oil and gas rights in the Lloydminster area.

(b) The guarantee of indebtedness of a pipeline company to a maximum of $2,400,000.

(c) The Company remains contingently liable as guarantor for the payment of foreign bank loans aggregating approximately $10,300,000 maturing in 1972, which were assumed as to payment by the purchaser of the offshore contract drilling operations.

(d) The Husky Oil Company of Delaware is defendant in two lawsuits alleging claims in the aggregate amount of approximately $11,400,000. The Company is also a named defendant in two class action lawsuits alleging anti-trust damages of an undetermined amount relating to sale of asphalt. These claims are in the preliminary stages of proceedings and it is not possible to ascertain the substance, if any, of the plaintiff's claim. In the opinion of management, this litigation will have no material adverse effect on the financial condition of the Company.

There are nine other lawsuits against the Companies which, in the opinion of counsel, are without significant substance or are covered by insurance.

(7) For income tax purposes, the Company is entitled to claim drilling, exploration and lease acquisition costs and tax depreciation in amounts which may exceed the related depletion and depreciation provisions reflected in its accounts. For 1970, the Company will claim deductions in an amount sufficient to eliminate taxable income other than income taxes currently payable by Curtis Inc. and Empire State Oil Company and minimum income taxes payable under provisions of the U.S. Tax Reform Act of 1969.

If the tax allocation basis had been followed for all timing differences between taxable income and reported income, provisions for deferred income taxes of $1,600,000 ($1,760,000 in 1969) would have been required and the cumulative amount at December 31, 1970 would have been approximately $14,500,000.

At December 31, 1970 expenditures remain to be carried forward and applied against taxable income as follows:

Drilling, exploration and undeveloped lease acquisition costs	$25,000,000
Remaining tax depreciation	$102,000,000

(8) Earnings per common share for 1970 and 1969 are based on the weighted average of shares outstanding during the year. No material dilution of earnings per share would result if all outstanding options, warrants or conversion privileges were exercised.

(9) Aggregate direct remuneration paid or payable in 1970 by the Company and its subsidiaries to the Company's directors and officers amounted to $40,000 and $622,000 respectively. During the year there were a total of 13 directors and 13 officers of whom 4 served in both capacities.

FINANCIAL AND OPERATING SUMMARY

FINANCIAL (thousands of dollars)	1970	1969	1968	1967	1966	1965	1964	1963	1962	1961
Gross operating revenues	$182,947	$163,493	$153,663	$90,197	$66,943	$53,237	$50,524	$45,979	$40,708	$37,865
Costs and operating, selling and general expenses	146,998	131,674	123,110	67,401	47,463	37,544	38,416	36,881	32,964	31,642
Interest (net of interest income)	8,842	8,264	6,981	4,486	3,068	2,101	1,479	1,432	1,348	1,604
Miscellaneous - net	562	(558)	(262)	(55)	(100)	320	201	(207)	(100)	(540)
Provision for U.S. income taxes	441	—	—	—	—	—	—	—	—	—
Depreciation, depletion and amortization	16,784	15,493	14,758	10,148	9,319	7,318	6,100	5,071	4,305	4,637
Exploration costs and overhead	—	—	—	—	—	—	—	—	1,696	1,230
Minority interests in earnings of subsidiaries	2,346	755	780	617	680	852	809	569	396	461
	175,973	155,628	145,367	82,597	60,430	48,135	47,005	43,746	40,609	39,034
Net earnings (loss) before extraordinary items	6,974	7,865	8,296	7,600	6,513	5,102	3,519	2,233	99	(1,169)
Special (charge) credit	(1,711)	—	2,123	708	—	—	—	—	—	—
Net earnings (loss)	$ 5,263	$ 7,865	$ 10,419	$ 8,308	$ 6,513	$ 5,102	$ 3,519	$ 2,233	$ 99	$(1,169)
Working capital	30,482	15,388	22,901	15,072	18,783	12,094	19,404	12,578	11,069	11,851
Long term debt (including deferred credits)	113,200	104,337	94,669	74,125	52,287	43,830	47,905	36,761	26,136	28,295
Preferred shares outstanding at par value	12,221	12,620	12,392	27,376	27,770	13,171	13,568	3,568	3,568	3,568
Preferred share dividends	694	716	740	1,616	1,331	807	514	214	214	214
Number of common shares outstanding (in thousands) (average from 1968)	9,411	9,405	8,723	6,644	6,431	6,244	6,208	6,169	6,123	6,091
Earnings (loss) per common share after preferred dividends										
From operations	$ 0.67	$ 0.76	$ 0.87	$ 0.90	$ 0.81	$ 0.69	$ 0.48	$ 0.33	$ (0.01)	$ (0.21)
Special (charge) credit	(0.18)	—	0.24	0.11	—	—	—	—	—	—
Total	$ 0.49	$ 0.76	$ 1.11	$ 1.01	$ 0.81	$ 0.69	$ 0.48	$ 0.33	$ (0.01)	$ (0.21)

OPERATING	1970	1969	1968	1967	1966	1965	1964	1963	1962	1961
Production — Daily Average										
Net crude oil and equivalent gas production — barrels	44,454	35,134	34,299	29,648	25,532	20,181	16,765	12,920	11,088	10,074
Crude oil and gas liquids production — barrels	40,507	31,663	30,742	26,197	22,178	17,463	14,312	10,796	9,163	8,697
Natural gas production — MCF	52,334	46,236	47,571	45,828	44,518	35,173	32,000	27,998	25,521	18,573
Lloydminster Blend Sales Daily Average Barrels	29,614	21,553	18,212	16,505	13,145	8,970	6,500	—	—	—
Refining and Marketing Daily Average Barrels										
Crude oil processed	50,044	47,893	45,802	20,248	18,387	16,929	15,789	17,263	17,231	16,396
Refined product sales	56,961	52,730	48,662	21,750	19,323	18,295	18,343	19,302	17,293	16,100

OFFICERS AND DIRECTORS

OFFICERS

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Chairman of the Board

GENE E. ROARK
President

ARNOLD LARSEN
Executive Vice President

A. B. HERSBERGER
Executive Vice President

H. B. BRUMMOND
Vice President

M. D. ENSIGN
Vice President

D. R. HAGERMAN
Vice President
Treasurer

J. H. MANNING
Vice President

R. M. McMANIS
Vice President

J. E. NIELSON
Vice President

M. F. WESTFALL
Vice President

D. H. FLORA
Secretary

L. E. SAUNDERS
Controller

S. L. CATE
President, Gate City Steel Corporation

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Chairman of the Board
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President, Husky Oil Ltd.

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President, Pitfield, Mackay, Ross & Company Limited

HUSKY

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oil report

file

March 19, 1969.

HUSKY OIL LTD

	Current Price	1969 High - Low	Listed	Symbol
Common	$19-1/2	$23-7/8 - 18-7/8	TSE, MSE, AMEX	HYO
"D" Warrants	11-5/8	14-1/2 - 11-1/2	TSE, MSE	HYOD Wts.

FIVE YEAR RECORD

Year	Cash Flow Per Share	Earnings Per Share	Dividend Per Share
1968	$ 2.57	$ 1.11	$ 0.30
1967	2.53*	1.01*	0.30
1966	2.25	0.81	0.15
1965	1.86	0.69	
1964	1.47	0.48	

* Includes 10.65 cents per share non-recurring profit.

Husky Oil Ltd., is a major integrated oil company with operations in Canada and the western United States. The company is active in exploration in Alberta, the Canadian Arctic, and the North Slope of Alaska. The acquisition of Frontier Refining Co., in 1968 has broadened Husky's refining and marketing operations in the United States. The company has diversified outside the oil industry into such interests as the fabrication and sale of steel, the manufacture of fuel briquets and a 50% interest in the new 613-foot Husky Tower in downtown Calgary.

EXPLORATION AND DEVELOPMENT - The successful development of the Lloydminster asphaltic crude oil field has freed the company for other exploration projects in Canada and the United States. Of special interest are: (1) a 50% working interest in 2,500,000 acres in northern Yukon about 325 miles southeast of the Prudhoe Bay oil discoveries, (2) recently purchased applications for federal oil and gas leases on approximately 230,000 acres on the North Slope

of Alaska, (3) a partnership between Husky and Union Pacific Resources Ltd., to explore for oil and gas in western Canada, and the Northwest and Yukon Territories. In 1969 Husky will participate in 70 to 80 exploratory wells plus 30 development wells in the Lloydminster area.

PRODUCTION - The major source of crude oil is the asphaltic crude oil reserves in the Lloydminster area of Alberta and Saskatchewan. Sales of this oil, blended with light-gravity condensate to enable pipelines transportation, were 20,062 barrels per day during the first nine months of 1968, up from 16,505 barrels per day during 1967. As at April 30, 1968, the company held interests equivalent to 1,647 oil and gas wells of which 1,116 were in Canada and 531 were in the United States.

REFINING AND MARKETING - In early 1968, Husky acquired Frontier Refining Co. of Denver, Colorado. This acquisition increased Husky's refining capacity to 45,000 - 50,000 barrels per day, crude oil production to 33,000 barrels per day and more than doubled its retail outlets to over 1,500 in 5 provinces and 17 states. Husky now has an important position in both the United States and Canada allowing for greater flexibility as economic conditions change. Husky is a major supplier of asphalt; to further their operation, Husky acquired early in 1968 Blackline Asphalt Sales, Inc., which markets asphalt and related products in Washington.

OTHER INTERESTS - Gate City Steel Corp. (82% owned) operates steel fabricating and service plants in Idaho, Colorado and Nebraska. Husky Briquetting Inc., (wholly-owned) produces and markets charcoal barbecue briquets in Canada and the United States. Husky Oil also operates several small pipelines and does offshore contract drilling

COMMENT - Husky Oil has shown a good growth performance in cash flow and earnings over the past five years. 1969 earnings should benefit from the recent acquisition of Frontier Refining Co. Husky Oil has, over the past two years, made important land acquisitions in both the Canadian Arctic and the Alaska North Slope. We believe that the company is becoming more aggressive in exploration. At $19-1/2 the stock is selling at 17 times 1968 earnings of $1.11 per share and 7.6 times 1968 cash flow of $2.57 per share. This is a very low cash flow multiple for an integrated oil company with a large exploration program. The "D" warrants offer the investor the right to buy common shares at $12.50 to June 1970; $14.50 to June 1972; and $16.50 to June 1974. At present these warrants are selling at a premium of 24%. We believe that purchase of the common shares of Husky Oil at present prices is attractive and offers the investor a chance to participate in a large exploration program in western Canada, the Arctic and western United States. The stock appears undervalued in relation to other major oil companies.

Research Department.

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Burton Thompson
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HUSKY OIL'S ANNUAL REPORT HIGHLIGHTS OPERATIONAL GAINS

For immediate release

Calgary, Alta.--Substantially increased land holdings in active exploration areas, sizeable gains in oil reserves, record production, and new horizons in the Lloydminster area are among highlights in the 1968 annual report of Husky Oil.

Husky is an independent fully integrated oil company operating in both Canada and the United States.

The exploratory land position was increased to a net of 5.7-million acres from 4.4-million acres in 1967. Husky reported strengthening exploratory acreage holdings in Alaska, Colorado and Wyoming in the U.S. and in western and northwestern Canada.

Husky's net reserves of oil and equivalent gas and sulphur increased 10 per cent to 284-million barrels on Dec. 31, 1968, compared with 258-million barrels on the same date in 1967. The proved category increased 9 per cent to 177-million barrels after production of 12.5-million barrels in 1968.

The company achieved a record during 1968 with production of 34,300 barrels of oil and gas equivalent per day, a 16 per cent increase over 1967. Production has been more than doubled in the past four years.

The vast Lloydminster area of Alberta and Saskatchewan in Canada again was a major source of production in 1968, reaching 10,800 barrels per day and accounting for almost one-third of Husky's total.

(more)

The exploration program in the Lloydminster project area, where Husky is the major operator, was exceptionally successful in establishing new reserves and in extending the region of known oil sands. Twenty-five exploratory tests and 73 stratigraphic tests, drilled to shallow heavy oil sands, resulted in the discovery of 14 new oil fields or significant extensions to existing oil fields. The program indicated oil occurrence in an additional area of about 90 square miles, a large part of which is scheduled for confirmation in 1969.

In 1969, the company expects to participate in approximately 70 exploratory tests in addition to those in the Lloydminster area. Of the 72 exploratory wells in which the company participated in 1968, 34 were in the Lloydminster area. Eight of the exploratory tests drilled outside of Lloydminster were completed for production.

Husky again maintained the leading position in the number of wells drilled in Canada last year. Of 155 development wells drilled, or participated in, 127 were completed as oil producers and 10 for gas production. Of the development wells, 98 were in the Lloydminster area, 23 in other parts of Canada, and 34 in the U.S.

Significant land acquisitions were made in 1968 in the Alsask region of southwestern Saskatchewan and southeastern Alberta. Husky has a commitment from its partners in the Alsask venture to drill approximately 15 exploratory tests in 1969.

The company acquired a 50 per cent working interest in 2,500,000 acres in the Ogilvie Mountains-Kandik Basin area of the northern Yukon, and entered the Alaskan North Slope play with the purchase of applications for federal oil and gas leases on approximately 230,000 acres. Husky also holds interests in leases on 500,000 acres in the Arctic Islands which are farmed out to Panarctic Oils Ltd.

(more)

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(more)

The company acquired two mining permits in the Wollaston Lake uranium play in Saskatchewan, and is a partner in the Del Norte mining venture which is scheduling core drilling to evaluate mineral deposits in British Columbia.

In the United States, Husky acquired a 25 per cent working interest in 230,000 acres in the Colorado portion of the Denver-Julesburg Basin, and a full working interest in 30,000 acres in southeastern Colorado. Holdings in the Bell Creek-Recluse-Ute area of Montana and Wyoming also were increased.

Husky net earnings increased by 25 per cent, from $8.3-million in 1967 to $10.4-million in 1968. The 1967 earnings included $708,000 special credits and the 1968 earnings $2,123,000 in special credits.

Production, refining and marketing performances and increased revenues from steel, briquetting and contract drilling subsidiaries spiraled gross operating revenue to $153.6-million in 1968 from $90-million in 1967. Much of the increase in sales resulted from the acquisition of the assets of The Frontier Refining Company.

Husky achieved a 10 per cent gain in net profit per share, increasing from $1.01 in 1967 to $1.11 in 1968 on an increased number of shares. Both years included special credits. Special credits amounted to 11 cents per share in 1967 and 24 cents per share in 1968.

Cash flow from operations increased 29 per cent to $24,165,000 in 1968 from $18,672,000 in 1967.

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